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MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

October Term, 1977

No.

77-1262

LOUIS BECK,

Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.

(Now Morrison Pump Co., Inc.),

Respondent.

PETITION FOR A WRIT OF CERTIORARI

To the United States Court of Appeals

For the Seventh Circuit

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No.

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PANTHER PUMPS & EQUIPMENT COMPANY, INC.
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Respondent.

PETITION FOR A WRIT OF CERTIORARI To the United States Court of Appeals For the Seventh Circuit

*To The Honorable, the Chief Justice, and the Associate
Justices of the Supreme Court of the United States:*

Petitioner Louis Beck prays that a writ of certiorari issue to the United States Circuit Court of Appeals for the Seventh Circuit to review the judgment entered in Case No. 77-1142 by said court on November 1, 1977, wherein Louis Beck was appellee.

OPINIONS BELOW

The appellate judgment relates to two distinct legal issues. One is an issue of first impression because Rule 25(c) was used to bind Petitioner to pay a money judgment entered seven years earlier—even though he was not a

party and did not defend the original litigation. The second relates to a charge of civil contempt for an alleged violation of an injunction prohibiting patent infringement.

The District Court, 424 F. Supp. 815 (N.D. Ill. 1976) (App. pp. A46-A58):

(1) Discharged the Order to Show Cause why Beck should not be held in contempt;

(2) Denied Respondent Panther's Motion to substitute Petitioner Beck and Universal Spray Systems as party defendants in a case that had already gone to final money judgment;

(3) Denied Respondent Panther's motion to re-open the contempt hearing.

The Circuit Court of Appeals in a decision reported at 566 F.2d 8 (App. pp. A1-A44) vacated the order of the District Court and remanded the case with instructions:

(1) to issue an order holding [Petitioner] Beck in civil contempt of court, the contempt consisting in a violation of the terms of the November 24, 1970 injunction by making and selling an "infringing product" (the SPRAYMATE Model B) as defined in that injunction;

(2) to issue an order substituting [Petitioner] Beck as a defendant in this, the original case; and

(3) to proceed with an accounting.

The original patent infringement judgment (App. pp. A77-A78) is unreported. The appeal in the underlying patent infringement case is reported at 468 F.2d 225 (7th Cir. 1972) (App. pp. A60-A76). The denial by this court of a Petition for Writ of Certiorari is reported at 411 U.S. 695 (1973) (App. p. A59).

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1). The Judgment below was entered on November 1, 1977. Petition for Rehearing was duly filed and denied without opinion on December 15, 1977 (App. pp. A45-A46).

QUESTIONS PRESENTED

1. Where a moving party is not precluded from asserting its claims in an independent suit, is a District Court's denial of that party's motion to substitute a new party defendant a "final decision" and therefore appealable to a Circuit Court under 28 U.S.C. § 1291?

2. After entry of final money judgment, can Fed. R. Civ. P. Rule 25(c) be used to substitute an individual neither denominated nor served as a party defendant, and to thereby bind him to the payment of the previously entered money judgment without providing that substituted defendant an opportunity to defend the original charge which resulted in the money judgment?

3. Do arguments and representations made in prior court proceedings to sustain the validity of a patent estop a patent holder from expanding the scope of its patent monopoly in a later contempt proceeding?

4. In reviewing the discretionary rulings of a district court in discharging its Order to Show Cause and in refusing to make a post-judgment substitution of a new party defendant, has the Court of Appeals exceeded the scope of appellate review as defined by Fed. R. Civ. P. Rule 52(a), 28 U.S.C., by reversing all the findings made by the District Court and substituting its own unexplained conclusions of fact?

CONSTITUTIONAL PROVISIONS, STATUTES AND RULES INVOLVED IN THIS CASE

Involved in this case are the Fifth Amendment to the United States Constitution; 28 U.S.C. § 1291; Fed. R. Civ. P. Rule 25(c), 28 U.S.C.; Fed. R. Civ. P. Rule 52(a), 28 U.S.C., and 26 Smith-Hurd Ill. Ann. Stats., § 6-110 (1963) (See App. pp. A79-A80).

STATEMENT OF THE CASE

Background

During 1967, respondent Panther Pumps & Equipment Company, Inc. (Panther) filed a Complaint in the United States District Court for the Northern District of Illinois against defendants Hydrocraft, Inc., Paul W. Schlosser, and Edwin Drath, which Complaint alleged patent infringement and sought damages and injunctive relief. Petitioner Louis Beck was neither denominated nor served as a party defendant in the original infringement law suit, even though he, Schlosser, and Drath were equal one-third stockholders in Hydrocraft.

Petitioner Beck was the nominal president of Hydrocraft but took no active part in the day-to-day business activities which were controlled by Messrs. Schlosser and Drath (TR 265-266).¹ In accordance with the jury's verdict, on November 24, 1970, the patents were found valid, an injunction issued and money judgments were entered

1. The abbreviation "TR" followed by page number will be used throughout this petition to reference pages of the transcript of testimony from the contempt trial in April, 1976. The notation "1970 Original TR" followed by a page number is used to reference pages of the transcript from the original infringement trial in June, 1970.

against defendant Hydrocraft, Inc., in the amount of \$150,000.00 and against the individual defendants Schlosser and Drath in the amount of \$5,000.00 each (App. pp. A77-A78). An appeal was taken but no stay of execution of judgment was sought or received.

In November, 1972, the Seventh Circuit Court of Appeals affirmed the judgment against Hydrocraft but refused to hold Schlosser and Drath individually liable for Hydrocraft's patent infringement (468 F.2d 225). A Petition for Certiorari was sought on the limited ground of challenging the District Court's jury instructions. This Court denied the petition at 411 U.S. 965 (1973).

Even though no stay of execution of judgment was sought by Hydrocraft, respondent Panther never attempted to execute the money judgment. This failure to execute is at least partially explained by the admission of Panther's counsel that he thought the judgment could not be executed while motions attacking the judgment remained pending (TR 1120).

The Patent Claims

The patents, U.S. Patent Nos. 3,254,845 and 3,367,270, and claims in issue in the original trial and in this contempt proceeding relate to a hydraulic paint spray pump. The claims are fully set forth in the recent Court of Appeals decision (App. pp. A8-A9) and include:

- (1) A fluid power transfer apparatus including a housing defining chamber, **a driving fluid in said chamber, said fluid having reversible vapor and liquid phases**, and movable means for alternately applying and removing pressure forces to and from said fluid **to cause reversal between said phases.**²

2. Emphasis supplied throughout by bold type.

Evidence Presented by Panther at the Original Infringement Trial in Order to Sustain the Validity of the Patents

During the 1970 trial, the respondent patent holder presented lengthy testimony about the phase reversal feature of the patents in suit (Original 1970 TR 275-295). **Panther's expert at the original trial distinguished the patents in suit from the closest prior art patents on the basis of the presence of the phase reversal feature** (Original 1970 TR 1097-1136). At the 1970 trial, **Panther's expert testified that the vaporization occurred "at what is known as the vapor pressure" for whatever liquid is being vaporized** (Original 1970 TR 1217-1218).

Since during the time of the original trial, respondent Panther placed so much emphasis upon the occurrence of phase reversal, it was necessary for Hydrocraft to determine the conditions that must be necessary in order for this patent phase reversal feature to exist.

The patent does not define when this "reversal between said phases" takes place. Consequently, in the underlying litigation, an interrogatory was propounded to the respondent Panther; the interrogatory appears at page 00189 of Volume 1 of the transcript of original papers filed in the Seventh Circuit Court of Appeals (TR 481, 496, DTX 21).³ The interrogatory is:

34.10 Describe with specificity, the conditions which must be present for said phase reversal to occur;

Answer: [By Panther] **Phase reversal or cavitation occurs when the pressure in the driving fluid chamber is below vapor pressure of driving fluid.**

The fact that respondent Panther claimed that the patented phase reversal or cavitation feature occurs when

3. DTX refers to numbered trial exhibits used by respondent Louis Beck at the 1976 contempt hearing.

the pressure in the driving fluid chamber is below the vapor pressure of the driving fluid was the foundation of the underlying patent infringement litigation in which respondent's patents were found valid, and infringed by the Hydrocraft pump known as the Spraymate (TR 411-412, 498, 1592-1595).

Evidence as to importance of this phase reversal cavitation feature at the original infringement trial can be obtained by reference to the summation argument made to the jury by respondent Panther's counsel on June 18, 1970, who stated that the inventor:

... went to his patent attorneys, and this matter was discussed at length, and it was finally evolved that what was occurring there was that they were having **phase reversal or cavitation, words you must be sick of hearing by now, phase reversal or cavitation occurring in that pump.** (June 18, 1970 Original TR 9)

Panther's Emphasis on Phase Reversal Cavitation During the Original Appeal

After the jury verdict and judgment in favor of the respondent Panther, an appeal was prosecuted to the United States Seventh Circuit Court of Appeals. In the Briefs filed before the Seventh Circuit Court of Appeals, respondent Panther continued to argue that phase reversal was the essential element of the patents and in fact stated:

... the continued reciprocating action of the piston acts to cause some of the pumping liquid remaining in the pump liquid chamber to undergo 'phase reversal' or cavitation in which the pumping liquid successfully and continually changes from liquid to vapor on a return or suction stroke of the piston. Phase reversal or cavitation produces the unobvious results,

advantages or features of what is defined in the patents in suit as 'cavitation cooling' and a reduction in the power requirements of the pump when the pump is in a stand-by condition. . . (DTX 22, pp. 7-8)

. . . The real point here is that if one follows the teachings of the patents in suit and constructs a pump in accordance with the patents in suit, the pump will exhibit phase reversal under standby conditions. (DTX 22, p. 36)

It is clearly set forth in the specifications of the patents in suit that the pump of the invention should be constructed so that phase reversal occurs in the driving fluid chamber during standby. (DTX 22, p. 37)

. . . none of the prior art patents . . . disclose pumps having phase reversal, any more than the 20-odd patents cited by the U.S. Patent Examiner in the patents in suit. . . (DTX 22, p. 37)

These arguments were successful, in that the original Court of Appeals decision found that the patents of the respondent Panther call for a paint spray pump which creates . . . "a partial vacuum, or 'cavitation', in the driving liquid chamber, some of the liquid vaporized and produces 'cavitation cooling.'" (App. p. A6). The Court of Appeals went on to state that "cavitation cooling" is an element of the patented invention even though those words do not appear in the claim (App. p. A69). **Cavitation cooling is also referred to as phase reversal** (TR 1654).

The Alleged Contempt

In 1971, Petitioner Louis Beck became the sole stockholder and president of a new Ohio corporation known as Universal Spray Systems, Inc. Universal manufactured and sold a pump known as the Spraymate B. As a result of that activity, Petitioner Beck was charged with violating the District Court injunction.

At about the time that the District Court entered its permanent injunction, Petitioner Beck approached an inventor-engineer, Zar Kelley, and asked Mr. Kelley to develop a pump which would eliminate the patented phase reversal cavitation feature and not violate the injunction (TR 1223, 1372-1374).

Mr. Kelley analyzed the original pump and determined that the phase reversal cavitation was caused by the drive shaft pulling the pump piston back with a force so high as to create a vacuum in which the ethylene glycol⁴ changed from a liquid phase to a vapor phase. To eliminate this feature, Kelley cut the drive shaft in half and inserted a simple and foolproof spring device that limited the force applied to the piston to only 16 pounds. By so limiting the piston force, he prevented the pressure in the driving fluid chamber from going below the vapor pressure of the ethylene glycol (the driving fluid) and thereby prevented a change from a liquid phase to a vapor phase (TR 1377-1380). At the contempt trial, it was stipulated that the Spraymate B pump was the same as the Spraymate except for the modified spring-loaded shaft designed by Mr. Kelley.

Petitioner Beck wrote to his patent attorney and asked if the Spraymate B would violate the District Court injunc-

4. The driving fluid used in the Spraymate and Spraymate B is ethylene glycol. In the original Spraymate pump it was the ethylene glycol which experienced the phase reversal.

tion. The written response from the patent attorney was that it would not violate the injunction and specifically:

During the infringement suit Panther took the position that the invention in both patents resided in the presence of cavitation and phase reversal during standby operation. The Spraymate pump involved in the infringement suit utilized the same cavitation and phase reversal. A piston diaphragm pump having your spring loaded piston shaft would not produce such cavitation or phase reversal during standby...

... a piston diaphragm pump having your spring loaded piston shaft would not be in contempt of the injunction issued on November 24, 1970 by the United States District Court for the Northern District of Illinois... (DTX 19)

Proceedings at the 1976 Contempt Trial

For clarity, it must be pointed out that at the 1976 contempt trial, Panther used the former defendants Schlosser and Drath on direct examination as its primary fact witnesses. Additionally, Panther used Schlosser as an expert witness during the contempt trial. Schlosser conceived the patented invention and assigned it to Panther while in its employ. He and Drath then left Panther and started Hydrocraft with Beck, in 1966. But by 1976, Schlosser and Drath had realigned themselves with Panther.

On direct examination, respondent Panther's expert witness, Schlosser, was asked if vapor phase reversal is "... the fundamental principle upon which your Schlosser patents were obtained and the principle in issue in the trial of this original case". Schlosser's answer was an unequivocal "yes" (TR 261-262).

Also, at the contempt trial, Schlosser, on behalf of respondent, testified that the phenomenon known as cavitation is also called phase reversal and that cavitation or phase reversal means "... putting a liquid at such a low pressure that it turns into a gas." (TR 239). More specifically, Mr. Schlosser testified as to just how low that pressure had to be in order to have phase reversal (TR 522):

Q. And in order to achieve this phase reversal, is it necessary that the vacuum go all the way down to the vapor pressure of the liquid?

A. Yes.

In addition to the testimony of Kelley, petitioner Beck provided expert testimony from Ellis Born, a professional engineer with more than 35 years experience in the field of hydraulic pumps. Born performed three tests, each independent from the other. All three tests showed that the Spraymate B pump did not exhibit phase reversal cavitation. The first two tests showed that the vapor pressure of the driving fluid was not reached in the Spraymate B and therefore there was no phase reversal cavitation.

The third test performed by Born involved no formulae nor calculations nor any test instruments. The test very simply called for the creation of a Spraymate B pump with a clear plastic housing so that the engineering expert could view the ethylene glycol chamber and make a visual determination if a phase reversal occurred. The testimony was that no phase reversal occurred (TR 1501-1502).⁵ Respondent's expert, Donald Fisher, testified that

5. Footnote No. 7 to Judge Markey's opinion is incorrect. All of Born's tests except this one were run on commercial Spraymate B pumps (TR 1479, DTX 74a, 74b).

he had seen other experts run this type of plastic housing test on other occasions (TR 1009). Respondent's other expert, Schlosser, performed a similar but simplified plastic housing test⁶ in which he claimed to have observed vapor phase reversal (TR 254-261).

At the contempt hearing, respondent Panther provided evidence of additional tests which its experts claimed showed that the Spraymate B was equivalent to the infringing Spraymate. However, respondent's raw evidence, as opposed to the opinions of the experts, tended to show non-equivalence. Respondent's tests showed that the Spraymate B consumed 100% more electrical power on standby (10 amperes vs. 5 amperes) and 67% more electricity during pumping (25 amperes vs. 15 amperes) than the original infringing pump (TR 966-967). Panther's tests also showed that the Spraymate B pumps 43% more fluid on standby (3-3/8 ounces vs. 2.36 ounces) than the original infringing pump (TR 968). Also, the tests showed that the Spraymate during operation pumps 20% more paint (45 ounces vs. 54 ounces) than does the Spraymate B (TR 969).

Evidence on the Motion to Substitute

In 1966, Schlosser, Drath and Beck entered into a Pre-incorporation Shareholders Agreement concerning the formulation of Hydrocraft, Inc. (DTX 1). Schlosser and Drath were in day-to-day control of the business operations of Hydrocraft (TR 266). The Hydrocraft plant and business was located in Chicago and Beck lived in Cleveland, Ohio. Beck was not in control of the Hydrocraft opera-

6. It should be noted that the tests performed by both respondent's experts and petitioner's experts were ex parte. This fact can be largely explained by the fact that only two months elapsed between the time of service on the Order to Show Cause and the Contempt trial.

tions and only visited the plant on approximately six occasions prior to the judgment and injunction of the District Court (TR 1199). Each of the three men owned an equal one-third interest in the corporate stock of Hydrocraft.

During the time that Hydrocraft operated, Beck's primary responsibility to the corporation was to provide financing for the fledgling business operation. The money was used to generally fund the entire Hydrocraft business, to buy equipment and inventory, to pay rent, salaries and other expenses (DTX 1, TR 272). Drath and Schlosser never lent any money to Hydrocraft (TR 273).

During the years 1966 to 1970, as much as a total of \$65,000.00 was loaned by Beck Spray Systems, Inc. and Beck Chemicals, Inc.⁷ to Hydrocraft (TR 265). Some of this debt was repaid and by late 1970, the unpaid debt existent from Hydrocraft to Beck Spray Systems, Inc. and Beck Chemicals, Inc. had been reduced to the range of \$45,000.00 to \$50,000.00 (TR 280). The existence of this debt was not disputed at the time of the contempt trial (TR 277, 709, 208, 1201). Respondent Panther's fact witnesses acknowledged that this debt was a real and bona fide debt (TR 280) and stemmed from monies actually loaned to Hydrocraft, Inc.

After the district court entered a money judgment and an injunction against Hydrocraft in 1970, the business of Hydrocraft came to a "grinding halt" because the company had no product to sell, and did not have a cash flow which would sustain the payment of business expenses, such as plant rent and employees' salaries (TR 275-277).

When it became apparent to Schlosser, Drath and Beck that Hydrocraft was no longer a viable corporation, the Chicago plant was closed, and the three agreed that Hydro-

7. Beck was the primary stockholder in each company.

craft cash and receivables should be used to pay off trade creditors (TR 284, 717). Except for certain cash distributions to Schlosser and Drath, all cash was used for this purpose (TR 718). A one-year old Oldsmobile Toronado was transferred from Hydrocraft to Schlosser (TR 288). A brand new Oldsmobile station wagon was transferred from Hydrocraft to Drath (TR 722). The automobiles were valued at \$10,258.12 (DTX 3). At the same time, Schlosser took from the corporation \$6,500.00 (TR 722), and Drath also took from the corporation \$6,500.00 (TR 722). There is no evidence in the record that they repaid the corporation for these distributions or that the corporation was in any way indebted to them. These cash distributions were not in the ordinary course of business and were made without Beck's knowledge (TR 1233).

In an attempt to repay part of the debt owed to Beck Chemicals, Inc. and Beck Spray Systems, Inc., most of the Hydrocraft parts inventory was shipped to Beck Spray Systems, Inc. (TR 278). These shipments were not made surreptitiously nor in the dark of night. They were made openly and during business hours (TR 731). As early as September, 1971, Schlosser had reported to Panther's president that the Hydrocraft plant had closed and the assets were shipped to Cleveland (TR 358), but Panther made no attempt to set aside the transfer or to attach the assets.

At the time of the contempt hearing, there was widely conflicting evidence as to the value of this inventory. Respondent's witness Drath first testified that the inventory was worth \$250,000.00, but then contradicted the testimony and said it was correctly and accurately valued at \$35,000.00, as shown in the corporate record books (TR 704). At the time the parts inventory arrived in Cleveland, it was physically counted and determined to have a replacement cost value of \$26,394.52 (TR 1221). The evidence

showed also that had the parts inventory been sold in bulk it would have been expected to yield \$4,000 to \$5,000.00 (TR 1223). The argument that this inventory is of reasonably small value is supported by the evidence that as of the time of the contempt trial, April, 1976, at least half of it still existed in the original unopened shipping boxes (TR 1220).

The District Court's disposition of the case did not require a finding as to the value of the inventory transferred. The Court of Appeals, likewise, failed to make a finding as to the value of the inventory so transferred, but Appellate Judge Markey stated (we believe erroneously) "Hydrocraft's Chicago inventory was substantially the only corporate asset . . ." (App. p. A39). The appellate opinion also states that the Hydrocraft parts inventory was ". . . an asset that would have been available to satisfy, in whole or in part, Panther's judgment." (App. p. A41). As will be argued later, petitioner urges that the finding as to the valuation of this inventory is, under the circumstances of the case, an important factual determination that must be made before the imposition of liability, if any, upon Louis Beck.

In January, 1971, Drath and Schlosser resigned as officers and directors of Hydrocraft and sold to petitioner Beck their stock interest in Hydrocraft, Inc. for the sum of \$100.00 payable to each of them, but retained a written option to repurchase the stock for the same price (PTX T, DTX U, T).

Respondent Panther made no claim against Beck Spray Systems, Inc. as a result of that corporation's receipt of Hydrocraft parts inventory, but instead claimed that "Louis Beck and Universal Spray Systems, Inc. are successors in interest to Hydrocraft."

The basis of respondent Panther's claim appears to be founded on three facts not disputed by petitioner: (1) the Hydrocraft parts inventory shipped to Beck Spray Systems, Inc. was transferred to Universal Spray Systems, Inc.; (2) Universal used some of the inventory to make the Spraymate B and (3) Louis Beck is the sole stockholder in Universal.

The unrebutted evidence showed that the separate corporate existence of Universal was always maintained; that the corporation never made a profit; that separate books and financial records were kept; and that Louis Beck never derived any personal financial gain from the corporation. Petitioner Louis Beck never even received a salary from Universal (TR 1352-1356).

REASONS FOR GRANTING WRIT

Denial of Substitution Is Not an Appealable Order

The judgment of the Seventh Circuit Court of Appeals requiring Louis Beck substituted as a defendant in a case that went to final money judgment seven years earlier directly confronts, and Petitioner believes, offends, his due process rights guaranteed by the Fifth Amendment of the United States Constitution.

Before considering the substantial constitutional issues raised by the Rule 25(c) substitution made by the Court of Appeals, this Court is asked to determine if a District Court order denying substitution is a "final decision" appealable under 28 U.S.C. § 1291.

In the Court of Appeals, petitioner Louis Beck contended that the order of the District Court denying substitution was not an appealable order under 28 U.S.C. § 1291. Petitioner asserts that the Appellate Court incorrectly rejected that argument (App. p. A31 n.9) and in so doing violated the principle of law established in *City of New York v. Consolidated Gas Co. of New York*, 253 U.S. 219 (1920) and *Credits Commutation Co. v. U. S.*, 91 F. 570, 571 (8th Cir. 1898), affirmed 177 U.S. 311 (1900).

In *Virginia Land Company v. Miami Shipbuilding Corp., et al.*, 201 F.2d 506 (5th Cir. 1953), an appeal from the district court's order denying appellant's Motion for Substitution under 25(c) was prosecuted. The court granted appellee's Motion to Dismiss, and stated that the order appealed from ". . . was merely one entered under Rule 25(c), denying substitution of parties, an order which rested in the discretion of the district court, and which was not appealable." (201 F.2d 508)

A similar result was reached in *Sumpter Lumber Company v. Sound Timber Company*, 257 F. 408 (9th Cir. 1919). In the *Sumpter* case, at page 140, the Court of Appeals stated that an order of a district court denying an application by a stranger to be substituted as a complainant in a suit is not appealable.

In *City of New York v. Consolidated Gas Co. of New York*, *supra*, this Court considered an appeal from the trial court's denial of an application to intervene in a suit and held:

The application was addressed to the discretion of the District Court, and the order appealed from was not of that final character which furnished the basis for appeal. *Ex parte Cutting*, 94 U. S. 14, 22; *Credits Commutation Co. v. United States*, 177 U. S. 311, 315; *Ex parte Leaf Tobacco Board of Trade*, 222 U.S. 578, 581.

By seeking to substitute Beck under Rule 25(c) Panther tried to short cut the usual procedure of filing a complaint against Beck and asserting its charge of fraudulent conveyance, unjust enrichment, or any other theory which it claims creates a liability from Beck to Respondent Panther.

A "final decision" is "one which leaves nothing open to further dispute and which sets at rest cause of action between parties" or "one which settles rights of parties respecting the subject-matter of the suit and which concludes them until it is reversed or set aside." BLACK'S LAW DICTIONARY, 4th Edition at page 757.

District Judge Austin's order denying substitution is not a "final decision" within the meaning of 28 U.S.C. § 1291 because it leaves open to further dispute all of Panther's claims concerning Beck's receipt of the alleged

fraudulent conveyance, his enrichment thereby, and his potential liability to Panther as a result thereof. Nothing in Judge Austin's order precludes Panther from filing a new lawsuit against Beck and to thereby seek recovery for the alleged damage caused to Panther. In assuming jurisdiction to review Judge Austin's denial of Panther's motion to substitute, the Court of Appeals refused to be bound by the holding in *Credits Commutation Co. v. United States*, *supra*, and erroneously found that the refusal to substitute Beck was a final appealable decision.

The Appellate Court Order Substituting Petitioner Beck Effects a Denial of Due Process of Law

In reaching their separate opinions, both the District Court and the Appellate Court expressly discussed the due process right owed to Petitioner Beck under the Fifth Amendment—but came to vastly different conclusions concerning the definition of that due process right.

The District Court cited the due process clause as the basis of its refusal to substitute Beck as a party defendant and said:

In my opinion, due process and principles of basic fairness require that an individual be given his day in court. Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge and, of course, the issue of liability is now immune from collateral attack. . . Beck and Universal *must* be given the opportunity to defend against the original infringement charge before liability is imposed upon them. They never had this opportunity. . . it seems grossly un-

fair to impose a significant financial liability upon an individual under these circumstances and for these reasons, I will not do so. (App. pp. A56-A57)

The Court of Appeals, as evidenced by Judge Markey's opinion, likewise reviewed the limitations of the due process clause but reached a diametrically opposed result, and stated in pertinent part:

Beck, in the motion to substitute, was not charged with "the original patent infringement." Beck was charged with acts by which he became the successor in interest to Hydrocraft, a judgment debtor. . . . The charge was (and is) that Beck is the successor in interest of the judgment debtor and, therefore, liable on the judgment. Against this charge, Beck was entitled under the Due Process Clause to an opportunity to defend himself to confront the witnesses against him, to cross-examine them, to present evidence in his favor, etc. The record shows that Beck has had his day in court, in a hearing lasting two weeks, on the charge that he is Hydrocraft's successor in interest. There has been no denial of procedural due process. (App. pp. A34-A35)

The threshold question that must be answered before Louis Beck's due process right can be defined is: What was the nature of the proceedings in 1976 and what was Beck's potential burden of liability?

The thrust of Panther's Rule 25(c) motion was to substitute Louis Beck personally to the entire \$150,000.00 money judgment which was issued against Hydrocraft in 1970 which by this time has grown to in excess of \$225,000.00.

Chief Justice Warren speaking for this Court in *Hannah v. Larche*, 363 U.S. 420, 442 (1960), stated that:

"Due process" is an an illusive concept. . . . The nature of the alleged right involved, the nature of the proceeding, and the possible burden on that proceeding, are all considerations which must be taken into account.

. . .

Judge Austin found the "nature of the proceedings" to be a request for complete and total substitution of Beck in place of the judgment debtor Hydrocraft and to thereby bind Beck to a money judgment already immune from collateral attack. Judge Austin found "the alleged right involved" was that "It is argued that Beck should be held liable for the \$150,000.00 judgment entered against Hydrocraft. . ." (App. p. A55).

As a prelude to further discussion of the error which petitioner claims was made by Judge Markey, let it be openly admitted that petitioner in no way challenges the long history of decisions entered by this Court and others which hold that if a fraudulent conveyance is found, then the recipient of that fraudulent conveyance can be held liable to a judgment creditor, either to return the property so conveyed or to pay over the value of the property so conveyed. As an example of the decisions which are not challenged by petitioner, we respectfully cite *Dunphy v. Kleinsmith*, 78 U.S. (11 Wall.) 610 (1870), wherein this court held that a fraudulent assignee of property is liable for a decree and accounting. We further cite *Wolf v. Stix*, 99 U.S. (9 Otto.) 1 (1878) wherein this Court held that if a fraudulent conveyance of property took place, a creditor of the transferor had available to him the remedy of reclaiming the property for the benefit of creditors and that the fraudulent assignee was subject

to the risk of having a court of competent jurisdiction void the transfer of property by which he had benefited. In a more recent case, this Court held that a fraudulent transferee of property is subject to a decree in monetary damages but that the decree is limited to the value of property received by the fraudulent assignee. *Buffum v. Peter Barceloux Co.*, 289 U.S. 227 (1932).

The brief review of this Court's decisions concerning the remedies available in the event of a fraudulent conveyance is very important because Judge Markey based the order substituting Petitioner Beck as a defendant upon a finding of fact—made for the first time in the Court of Appeals—that Beck benefited by a fraudulent conveyance of a parts inventory from Hydrocraft (App. pp. A38-A39).

Assuming, arguendo, that the Court of Appeals had the authority to make a fact finding of fraudulent conveyance and that the finding is correct, it is respectfully argued that Beck would then be entitled to the rights stated by this Court in *Dunphy v. Kleinsmith*, *Wolf v. Stix*, and *Buffum v. Peter Barceloux Co.*, all *supra*. But the Court of Appeals did not apply the holdings of those cases in determining Beck's liability, and did not limit Beck's liability to the value of the assets conveyed. There is no finding as to that value.

The crucial oversight made by Judge Markey in concluding that Beck was not denied due process was failure to consider nature of the proceeding and Beck's possible burden of liability, as referenced in *Hannah*, *supra*.

If the possible burden had been limited to the value of the conveyed Hydrocraft assets then, in that event, petitioner will concede that the two week hearing conducted in April, 1976, was adequate to satisfy the due process guarantee. It is this rationale that supports the ability

of any court to challenge a fraudulent conveyance to the extent of the value of property conveyed as was found in *Buffum v. Peter Barceloux*, *supra*.

But Appellant Judge Markey's opinion is wrong because he used the rationale of this Court's rulings in cases of fraudulent conveyance to support the substitution of petitioner to a seven year old money judgment without reference to the amount of the fraudulent conveyance, and without giving petitioner a hearing on the dispute that gave rise to the original judgment.

The Appeals Court substituted petitioner Beck for the entire \$150,000.00 Hydrocraft liability (\$225,000.00 with interest) but never determined the value of the fraudulent conveyance and therefore did not limit Beck's liability to value of the conveyance from Hydrocraft.

The flaw in the Appellate Court's logic occurs when the Court claims that Beck received due process as a result of the 1976 hearing but proceeds to impose a judgment against Beck that is in no way related to the issue litigated in 1976. It imposed a judgment on Beck for a tort that occurred prior to 1970 and for which he has never had the opportunity to enter a defense.

Petitioner Beck does not challenge the ability of a District or Appellate Court to make a post-judgment substitution of a new party defendant if there is a finding that the new party controlled the litigation prior to judgment and thereby had an opportunity, before judgment, to advance all defenses and to thereby benefit from his due process right. This court reached just that conclusion in *Louisville & N.R. Co. v. Schmidt*, 177 U.S. 230 (1900) based on a finding that the substituted defendant had in fact controlled the litigation prior to judgment.

But in the case of Louis Beck the District Court found:

Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge. . .

. . . In the situation existing between Beck and Hydrocraft, there was no unity of interest between the individual and the corporation. (App. p. A57)

Even the Appellate Court didn't find that Beck controlled the infringement litigation prior to the original judgment against Hydrocraft. The closest the Appellate Court came to discussing the issue of control is a finding that after the entry of judgment against Hydrocraft:

. . . Beck continued to control Hydrocraft's interests by appealing from that judgment, by returning to the district court to seek relief from that judgment under Fed. R. Civ. P. 60(b), and by petitioning for certiorari from this court's affirmance as to Hydrocraft. App. p. A42)

The only fact in the record which can be claimed to support this appellate court finding of post-judgment control is that on January 7, 1971 Beck became the owner of all stock in the defunct Hydrocraft, Inc.

In *Armstrong v. Manzo*, 380 U.S. 545, 552 (1965), this Court addressed the concept of due process in a case which had already proceeded to final judgment and said:

A fundamental requirement of due process is "the opportunity to be heard". *Grannis v. Ordean*, 234 U.S. 385, 394, 34 S. Ct. 779, 783. It is an opportunity which must be granted at a meaningful time and in a meaningful manner.

Louis Beck has never had "the opportunity to be heard" in opposition to the original charge of infringement but yet has been made liable to pay the entire judgment resulting from that infringement. Petitioner urges this court to review the decisions below and to find that the District Court properly exercised its discretion in ruling that "it seems grossly unfair" to substitute Louis Beck, thereby denying Panther's motion to substitute.

Appellate Court Finding of Alter Ego

The Court of Appeals' order to substitute Louis Beck as a defendant in effect is founded upon the piercing of two corporations. First it pierced Hydrocraft to find that Universal Spray Systems, Inc. was a successor in interest and then pierced Universal by saying that Beck was its *alter ego*. The essence of this procedure is that the Court of Appeals made Beck the *alter ego* of Hydrocraft in direct conflict with the District Court findings that:

1. Beck did not control or dominate Hydrocraft,
2. There was no unity of interest between Beck and Hydrocraft,
3. The separate existence of the corporation was always maintained,
4. Beck was an investor who left the day-to-day operations of Hydrocraft in the hands of his two partners. (App. p. A57)

In relation to the District Court findings this Court stands in review in the same position as occupied by Court of Appeals, i.e., to determine whether the District Court findings are clearly erroneous. *McAllister v. United States*, 348 U.S. 19, 20-21 (1954).

The Court of Appeals grossly departed from the standard of appellate review in making its determination of *alter ego* because it engaged in a de novo decision of facts in violation of the standard established in *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969).

Perhaps the most effective argument which can be advanced to urge that the Court of Appeals erred in making its finding of fact that Universal is Beck's *alter ego* is to quote the sentence wherein the Courts of Appeals made this finding:

Universal being Beck's *alter ego*, its manufacture and sale of the SPRAYMATE B pump are attributable to Beck. (App. p. A20)

This is a naked assertion of fact devoid of explanation, reasoning, factual foundation, and most importantly devoid of a finding of clear error. This assertion of fact is in direct conflict with the principle enunciated in *Walling v. General Industries*, 330 U.S. 545, 550 (1947) where this court held that findings of fact by a District Court should not be reversed unless clearly wrong and that, "The Circuit Court of Appeals' rejection of those findings cannot rest on the conflicting testimony of petitioner's witnesses."

Even if the Appellate Court might have reached a different result based upon the facts adduced at trial, this mere fact did not justify its action in setting aside findings of fact entered by the District Court. As this Court stated in *U. S. v. National Association of Real Estate Boards*, 339 U.S. 485, 495-496 (1950):

It is not enough that we might give the facts another construction, resolve the ambiguities differently, and find a more sinister caste to actions which

the District Court apparently deemed innocent. . . We are not given those choices, because our mandate is not to set aside findings of fact "unless clearly erroneous."

Appellate Court's Reversal of a Discretionary Ruling

In making his ruling to deny Panther's Rule 25(c) motion for substitution, District Judge Austin recognized that "The very nature of Rule 25(c) vests a great deal of discretion in the hands of the court." He went on to quote *McComb v. Row River Lumber Co.*, 177 F.2d 129 (9th Cir. 1949) to state that "it is not mandatory that a substitution be made in every case of a transfer in interest." (App. pp. A55-A56)

The Court of Appeals hesitantly "assumed" an acceptance of these principles of law (App. p. A33) but then proceeded to make a ruling that makes substitution of a successor in interest mandatory rather than discretionary.

Although the discretionary nature of Rule 25(c) has been established by the decisions of Circuit Courts, this Court has never reported a decision on the issue. The application of Rule 25(c) in Judge Markey's opinion stressed the finding that Hydrocraft made a fraudulent transfer by which Beck became successor in interest. This de novo "fact" was then used to make substitution mandatory when a successor in interest is found to exist:

The facts clearly show that Beck took the place of Hydrocraft. We hold, therefore, that Beck is Hydrocraft's successor in interest and should be substituted as defendant under Rule 25(c), **the procedural rule which must, of course, follow substantive law.** (App. p. A35)

A majority⁸ of United States Circuit Courts have considered the discretionary nature of Rule 25(c). They have unanimously determined that the application of the rule is discretionary. It is respectfully argued that the opinion of Judge Markey makes the application of Rule 25(c) mandatory and is, therefore, in conflict with all of the other circuits which have considered the issue.

Application of Rule 25(c) Is Limited to Pending Actions Which Have Not Gone to Final Judgment

The District Court agreed with Petitioner's argument that Rule 25(c) could not be applied in the manner sought by Respondent, because the case was not "pending". The Court of Appeals noted that:

* * * the district court first held that Rule 25(c) "applies only to actions which are pending" and that "[t]his case is no longer 'pending' because it went to final judgment [in 1970]." (424 F.Supp. at 821.) We agree that Rule 25 applies only to pending actions, but disagree with the view that this case is not pending * * *

8. The third, fourth, fifth, sixth and ninth circuits have held the application of Rule 25(c) to be discretionary. For example, please see:

Sun Maid Raisin Growers of California v. California Packing Corporation, 273 F.2d 282 (9th Cir. 1959)

Virginia Land Company v. Miami Shipbuilding Corp., 201 F.2d 506 (5th Cir. 1953)

E. I. DuPont De Nemours & Co. v. Lyles & Lang Construction Co., 219 F.2d 328 (4th Cir. 1955), cert. denied 349 U.S. 956 (1954)

Fontana v. United Bonding Ins. Co., 468 F.2d 168 (3rd Cir. 1972)

U. S. for Use and Benefit of Jahn v. Jones Coal Co., 368 F.2d 217 (6th Cir. 1966)

This case is a subsequent proceeding to enforce the judgment (and injunction) rendered in 1970; it is therefore pending *again*, and Rule 25 applies. (App. p. A32)

As the discussion of the rule in *WRIGHT AND MILLER'S Federal Practice and Procedure*, Vol. 7a (1972 Ed.) points out at page 663:

Rule 25(c) speaks to the situation in which there is "any transfer of interest" **during the pendency of the action.**

This emphasis on pendency is crucial, since limiting application of Rule 25(c) to pendent actions avoids all objections on due process grounds that the substituted party will be deprived of his right to a fair hearing. An action is pending "from its inception until the rendition of final judgment." *BLACK'S LAW DICTIONARY*, 1291 (4th Ed. 1951). And a judgment is final, for the purposes of this discussion, when it ends the litigation on the merits and leaves nothing for the court to do but execute the judgment. *Catlin v. United States*, 324 U.S. 229, 233 (1945). It is respectfully argued that the Court of Appeals erroneously created a concept of "pending *again*" in conflict with this Court's ruling in *Catlin, supra*.

Appellate Court Refused to Be Bound by Illinois Law

Since Respondent's claim against Louis Beck was founded on an alleged fraudulent bulk transfer of Hydrocraft assets, Petitioner asserted the six month statute of limitations for such actions established by the Illinois Commercial Code (Title 26 § 6-110). The goods were openly transferred in 1970 and 1971 (TR 79, 80, 281, 282). Panther had knowledge of the transfer in 1972 (TR 1133), but took no action until 1976.

The Court of Appeals stated that Panther did not have knowledge of the transfer until 1975 (App. p. A43). Even accepting, arguendo, this finding of "fact" by the Appellate Court, the record shows that in early 1975, Schlosser had contacted Panther's attorney (TR 221) and that before September 5, 1975 Drath was corresponding with Panther's attorney about Beck's activities (PTX LLLL). Panther's Rule 25(c) motion was filed on April 12, 1976.

Even if all of Petitioner's evidence about Panther's knowledge of the inventory transfer is rejected (as it was by the Appellate Court), Panther is still barred by the six-month statute of limitation, and the Appellate Court erred in not applying that limitation.

District Court Applied the Doctrine of Estoppel to Limit Respondent's Patent Monopoly

Petitioner suggests that this case not only presents for decision by this Court important questions concerning the constitutionally permissible use of Rule 25(c), but that an equally compelling reason for granting Certiorari is to review the Appellate Court refusal to apply estoppel as a limit upon Respondent's claimed patent monopoly.

In order to sustain the validity of its patents during the original trial and appeal, Respondent Panther clearly and unequivocally:

First, argued that the phenomenon of phase reversal is included in its patent monopoly:

. . . The real point here is that if one follows the teachings of the patents in suit and constructs a pump in accordance with the patents in suit, the pump will exhibit phase reversal under standby conditions. (DTX 22, p. 36)

Secondly, stated that the specifications of its patents call for phase reversal:

It is clearly set forth in the specifications of the patents in suit that the pump of the invention should be constructed so that phase reversal occurs in the driving fluid chamber during standby. (DTX 22, p. 37)

Thirdly, distinguished prior art on the absence of phase reversal:

. . . none of the prior art patents . . . disclose pumps having phase reversal. . . (DTX 22, p. 37)

And finally, defined when the phase reversal cavitation phenomenon takes place:

Phase reversal or cavitation occurs when the pressure in the driving fluid chamber is below vapor pressure of driving fluid. (TR 481, 496, DTX 21)

Petitioner Louis Beck respectfully argues that because of these unequivocal representations by respondent Panther, it is now estopped to claim as part of its patent monopoly the Spraymate B pump which was shown not to have phase reversal cavitation.

District Judge Austin presided at both the initial infringement trial in 1970 and at the contempt trial in 1976. His decision in the contempt portion of the case is founded upon estoppel. Judge Austin found that in the original trial and appeal Panther was able to sustain the validity of its patents by claiming they covered a phase reversal cavitation feature. He refused to allow them to change that claim at the contempt trial.

Appellate Court Refused to Apply Estoppel and Thereby Expanded Respondent's Patent Monopoly

In the current contempt trial and appeal, the District Court and the Appellate Court made concurrent findings of fact that "cavitation cooling" is also referred to as "phase reversal cavitation" and that

... In the original trial and appeal, the SPRAYMATE was held an infringing product because it exhibited "cavitation cooling". (App. p. A23)

These concurrent findings of fact are amply supported by the record and petitioner takes no exception to them. But, the balance of the appellate decision concerning the contempt issue petitioner contends is wrong because, in summary, Judge Markey allowed Panther to use the contempt proceeding to broaden its patent monopoly to devices which it distinguished during the original trial and appeal. Namely, the appellate decision has found the Spraymate B to be the equivalent of the Spraymate even though the Spraymate B does not exhibit phase reversal cavitation or cavitation cooling, which Panther, itself, proclaimed to be the "fundamental principle" upon which the patents were obtained and "the principle in issue in the trial of this original case" (TR 262).

Judge Markey's opinion is wrong because it gives respondent Panther a patent monopoly on all paint pumps which function so as to avoid overheating without the use of auxiliary cooling equipment, whether or not they achieve this result by using the patented phase reversal cavitation feature. This broadening of Panther's patent monopoly is irrefutably shown by two quotations from the appellate opinion. Judge Markey states:

... assuming, arguendo, the correctness of the finding that the SPRAYMATE B does not cavitate⁹ and that its operation is therefore not identical¹⁰ to that of the SPRAYMATE, that finding cannot end the inquiry on the issue of contempt. (App. pp. A25-A26)

He then goes on to show his emphasis on the lack of overheating rather than on the patented method for achieving this result by finding:

Finally, and perhaps most tellingly, the SPRAYMATE and the SPRAYMATE B *avoid* overheating of the driving fluid *without* using auxiliary cooling equipment, the main advance of the patented invention over the prior art. The defense must fail in light of the more probative fact: *that the SPRAYMATE B does not overheat*. ... (App. p. A27)

In *Burr v. Duryee*, 68 U.S. (1 Wall.) 531, 572 (1863), this Court held:

That two machines produce the same effect will not justify the assertion that they are substantially the same, or that the devices used are therefore mere equivalents for those of the other.

This Court quoted the above statement from the *Burr* case in *Boyden Power-Brake Co. v. Westinghouse*, 170 U.S. 537, 569 (1898), as being "sound as a general principle of law", and then went on to restate the rule that a function cannot be patented:

... the alleged infringer must have done something more than reach the same result. He must

9. Footnote omitted here.

10. The word "identical" and the concept of identity were not used by the District Court.

have reached it by substantially the same or similar means, or the rule that the function of a machine cannot be patented is of no practical value. To say that the patentee of a pioneer invention for a new mechanism is entitled to every mechanical device which produces the same result is to hold, in other language, that he is entitled to patent his function. . . .

The Court of Appeals did not follow the decisions of *Burr* and *Boyden* and in effect expanded Panther's patents to cover the function of not overheating.

Judge Markey's opinion does not conform to this court's statement in *Graver Tank & Mfg. Co., et al. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950), that the doctrine of equivalents is founded upon the theory that:

"if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape." *Machine Co. v. Murphy*, 97 U.S. 120, 125.

This error by Judge Markey is particularly exhibited by one quotation from his opinion wherein he shows either a misunderstanding of the evidence presented by Panther in order to sustain the validity of its patents or a deliberate broadening of the patent monopoly claimed by Panther because he says:

. . . inexplicably, the district court stated that the "crucial issue" is the "existence or non-existence of phase reversal cavitation." (App. p. A23)

District Judge Austin stated that phase reversal cavitation was the "crucial issue" because that was the very same argument used by Panther to sustain its patents

during the first trial and appeal and to distinguish its patents from the prior art.

In the contempt trial, Judge Austin expressly looked to the "particular circumstances of the case" when he formulated the requirements for an equivalent to the original Spraymate because he looked to what Panther did in the original trial and found:

. . . The record before me indicates that the Plaintiff, in the original trial and appeal, took the position that phase reversal cavitation occurred in the Spraymate pump. . . Thus, phase reversal at the vapor pressure of the driving fluid was necessary in order to infringe upon the patents for [sic, infringed by] the original Spraymate pump. The Plaintiff, having taken this position at trial, cannot now alter it at the contempt proceeding. (App. pp. A51-A52)

It was Appellate Judge Markey who erred by failing to understand that the primary circumstance of this case is that Panther's patents were found valid because of Panther's repeated argument that they covered a phase reversal cavitation feature as the "fundamental principle." (TR 262).

Judge Markey announced that the "clearly erroneous" test should be applied to review the District Court findings, but he went on to engage in a *de novo* determination of factual issues without deference to the ability of the trial judge to appraise and weigh evidence.

In the landmark case of *Graver Tank, supra*, this court held at 339 U.S. 609-610:

A finding of equivalence is a determination of fact. . . . Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness

and weight of evidence. It is to be decided by the trial court and that court's decision, under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience.

In an even more recent statement, this court in *Zenith Radio Corporation v. Hazeltine Research, Inc.*, *supra*, at p. 123 said:

In applying the clearly erroneous standard to the findings of a district court sitting without a jury, appellate courts must constantly have in mind that their function is not to decide factual issues *de novo*. The authority of an appellate court, when reviewing the findings of a judge as well as those of a jury, is circumscribed by the deference it must give to decisions of the trier of the fact, who is usually in a superior position to appraise and weigh the evidence. . .

The opinion of District Judge Austin is clear and makes findings on all important issues. It is respectfully submitted that petitioner, in the "Statement of Case" portion of this petition has provided the necessary references to the transcript of testimony and to the exhibits which provide factual support for Judge Austin's opinion.

Additionally, it must be pointed out that the trial of this case presented several important questions as to the credibility of witnesses in that one of Panther's expert witnesses (Fisher) was a professional witness who derived 80-90% of his income from testifying in court (TR 990). The other expert (Schlosser) was biased against Beck because he would benefit by the elimination of Beck and

the Spraymate B from the marketplace (TR 388-389) and had also retained counsel to sue Beck on another, but unrelated claim (TR 290-292).

Judge Austin's decision was expressly based upon the persuasiveness of the witnesses and Panther's failure to meet its burden of proof. Judge Austin found:

After hearing the evidence presented, and carefully considering the entire record before me, I must conclude that the Plaintiff has not successfully carried his burden. The evidence presented does not convince me that phase reversal or cavitation takes place during the operation of the Spraymate B pump while on standby. . . The expert witnesses of the Defendant Beck testified that cavitation did not occur in the operation of the Spraymate B pump and I find that testimony persuasive. The testimony I have heard leads me to conclude that the Spraymate and the Spraymate B do not perform their functions in substantially the same fashion. . . (App. p. A52)

Judge Markey's opinion is wrong because he failed to limit Panther's use of the doctrine of equivalents by the controlling defense of estoppel.

This court has frequently applied estoppel in order to limit application of the doctrine of equivalents. This limitation has historically arisen most frequently in the context of file-wrapper estoppel.

In *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U.S. 126, 136 (1942), this court held:

Whatever may be the appropriate scope and application of the doctrine of equivalents, where a claim is allowed without a restrictive amendment, it has long been settled that recourse may not be had to

that doctrine to recapture claims which the patentee has surrendered by amendment. . .

Similarly, in *Schriber-Schroth Co. v. Cleveland Trust Co.*, 311 U.S. 211, 221 (1940), this Court stated:

The patentee may not, by resort to the doctrine of equivalents, give to an allowed claim a scope which it might have had without the amendments, the cancellation of which amounts to a disclaimer. [citations omitted] The injurious consequences to the public and to inventors and patent applicants if patentees were thus permitted to revive cancelled or rejected claims and restore them to their patents are manifest. . .

In this case Petitioner's defense of estoppel was well established by the representations, arguments and distinguishment of prior art presented by Panther in the original infringement trial and appeal.

Petitioner's research of the decisions of this Court disclose no patent law case which specifically considered an issue of judicial estoppel separate from file-wrapper estoppel. But petitioner respectfully argues that the rationale applied by this court in the *Exhibit Supply* case is the same that should prohibit Panther from now broadening its scope of equivalents to pumps that it previously disclaimed, to wit those that do not possess phase reversal cavitation.

The rule that an estoppel arises against a patentee as a result of its representations made to a court to sustain validity of its patents was first expressly stated in *Union Carbide & Carbon Corp. v. Graver Tank & Mfg. Co.*, 196 F.2d 103 (7th Cir. 1952), cert. denied 344 U.S. 849 (1952) where the court said:

In our opinion, the application of the doctrine of equivalency in this case is to ignore the teachings of the patent, the representation upon which the claims in suit were allowed and, more pointedly perhaps, the representations by which their validity has been sustained in the courts. While the difference between plaintiff's composition and those accused may not be great, it is that difference which distinguished plaintiff's composition from the prior art and which enabled it to sustain the validity of its grant. It is now estopped from claiming otherwise. 196 F.2d at 112.

The same rule has been applied in *Marston v. J. C. Penney Company*, 469 F.2d 694 (4th Cir. 1972), affirming the opinion at 324 F. Supp. 889 (E.D. Vir. 1971). In that case there was no issue of file-wrapper estoppel but there was estoppel caused by the patentee's representations made in prior infringement litigation. The court stated:

Furthermore, arguments and representations made in court in efforts to sustain the validity of Marston's [the Patentee] claims bar him from successfully asserting now that units embodying the changes distinguished in earlier litigation can be considered equivalent. 324 F. Supp. at 894.

Now because of Judge Markey's decision in the Panther contempt action against Louis Beck, the Seventh Circuit has rejected the estoppel doctrine originally adopted in *Graver Tank* (196 F.2d 103) and an express conflict exists between the Seventh and Fourth Circuits. Furthermore, the opinion of Judge Markey is in complete conflict with the rationale that the doctrine of equivalents is subservient to file-wrapper estoppel as set down in

Exhibit Supply, and *Schriber-Schroth*, both *supra*, and many other cases.¹¹

To allow the decision of the Court of Appeals to stand unmodified is to permit Panther to work a fraud on the courts and on the public because Panther obtained an adjudication of validity and infringement based upon one narrow set of claims and six years later was allowed to obtain an adjudication of contempt upon a different set of claims which even encompassed features previously distinguished and disclaimed in judicial proceedings.

The rule of estoppel—be it judicial or file-wrapper—is a rule of ordinary honesty. It is a rule which, in effect, prohibits double dealing. The District Court was right because it applied estoppel to prevent this double dealing by Panther.

The Court of Appeals is wrong because it did not apply estoppel as a bar to the broadened claim of equivalents made by Panther at the contempt trial.

11. *Altoona Publix Theatres, Inc. v. American Tri-Ergon Corp.* (1935), 294 U.S. 477, 492; *Keystone Driller Co. v. Northwest Engineering Corp.* (1935), 294 U.S. 42, 48; *Smith v. Magic City Kennel Club, Incorporated* (1931), 282 U.S. 784, 789-90; *I.T.S. Rubber Company v. Essex Rubber Company* (1926), 272 U.S. 429, 443-4; *Weber Electric Company v. E. H. Freeman Electric Company* (1921), 256 U.S. 668, 677; *Hubbell v. United States* (1900), 179 U.S. 77, 80-4; *Morgan Envelope Company v. Albany Perforated Wrapping Paper Company* (1894), 152 U.S. 425, 429; *Corbin Cabinet Lock Company v. Eagle Lock Company* (1893), 150 U.S. 38, 40; *Knapp v. Morss* (1893), 150 U.S. 221, 224-5; *Royer v. Coupe* (1892), 146 U.S. 524, 532; *Phoenix Caster Company v. Spiegel* (1890), 133 U.S. 360, 368; *Roemer v. Peddie* (1889), 132 U.S. 313, 316-7; *Sutter v. Robinson* (1886), 119 U.S. 530, 541; *Shepard v. Carrigan* (1886), 116 U.S. 593, 597-8; *Sargeant v. Hall Safe and Lock Co.* (1885), 114 U.S. 63, 86.

CONCLUSION

Petitioner respectfully states that the foregoing Petition has provided legal arguments and references to the underlying Appellate Court decision to show that the opinion of the Seventh Circuit Court of Appeals:

I. **Conflicts with decisions of other circuits on the issues of:**

(a) The application of judicial estoppel as a limitation upon a patent holder's expanded claim of equivalents;

(b) The discretionary nature of Rule 25(c);

(c) The status of a denial of a Rule 25(c) motion as an appealable "final decision".

II. **Conflicts with Illinois law** because it allows a recovery on the theory of a fraudulent bulk transfer in a time period beyond the six month statute of limitations created for such actions.

III. **Has decided important questions of federal law not decided by this Court** including:

(a) That Rule 25(c), can, without violation of the due process clause, be used to substitute a non party as a new defendant in a case that has already gone to final money judgment, and to thereby bind that party to payment of the judgment without providing him an opportunity to defend the charge which gave rise to the judgment;

(b) That the denial of a Rule 25(c) motion is an appealable "final decision";

(c) That in a contempt hearing, a patent holder is not barred by judicial estoppel from expanding its claimed

scope of equivalents to include art that it distinguished in the original infringement litigation.

IV. Has decided important federal questions in conflict with applicable decisions of this Court including:

(a) Complete disregard of the rationale of the doctrine of file-wrapper estoppel as established by this Court;

(b) Expansion of Respondent's patent monopoly to include a patent upon the function—in defiance of this Courts' rule that a function cannot be patented;

(c) Application of the theory of fraudulent conveyance to impose a liability without limiting that liability to the value of the property conveyed as required by the decisions of this Court;

(d) Ruling that denial of Respondent's motion to substitute a new-party defendant is an appealable decision even though such denial did not preclude Respondent from seeking relief in another cause of action;

(e) Imposition of a money judgment upon Petitioner without allowing Petitioner to present evidence in defense of the claim upon which that money judgment was founded.

V. Has made a far departure from the accepted and usual course of judicial proceedings by:

(a) Reversing the many and detailed findings of fact made by the trial court without deference to the ability of the trial court to judge credibility and persuasiveness of witnesses;

(b) Undertaking a de novo review of the evidence and then reaching its own "findings of fact";

(c) Interpreting the due process clause of the Fifth Amendment so as to preclude petitioner from having a right to defend the charge which resulted in a judgment against him.

For these reasons, Petitioner prays that the Writ issue.

Respectfully submitted,

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